

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman;
Nanci E. Langley; and
Robert G. Taub

Periodic Reporting
(Proposals Nine through Fifteen)

Docket No. RM2012-1

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL
PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSALS NINE THROUGH FIFTEEN)

(Issued November 10, 2011)

On November 1, 2011, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to consider changes in the analytical methods approved for use in periodic reporting.¹ These changes are contained in Proposals Nine through Fifteen, which are described below.

¹ Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Nine – Fifteen), November 1, 2011 (Petition).

Proposal Nine. Proposed Change in Method for Inbound Revenue, Pieces, and Weight (RPW) Reporting.

The purpose of Proposal Nine is to improve the method for distributing cost segment 14 (domestic transportation) costs of Foreign Origin mail to countries and country groups in the International Cost and Revenue Analysis (ICRA). *Id.* at 3. Specifically, Proposal Nine would substitute a weight-based method for the current piece-based method. *Id.*

The Postal Service explains that the ICRA began reporting inbound mail statistics separately by country or country group in FY 2008. *Id.* It contends that at that time, the method for distributing domestic transportation costs for inbound mail should have changed from the piece-based method to a weight-based method to align with the weight-based method for distributing domestic transportation costs for U.S. Origin international mail. *Id.*

The Postal Service concludes that Proposal Nine would be an improvement over the piece-based method because of the requirement that inbound mail statistics be reported by country or country group, and because weight per piece varies significantly across countries and country groups. *Id.* at 4.

The Postal Service illustrates the impact that Proposal Nine would have had in FY 2010 in the Excel workbook “Proposal9.xls,” filed under seal. *Id.* It states that the results for products are not affected and that the impact is most significant for inbound mail from Canada. *Id.*

Proposal Ten. Proposed Change in the In-Office Cost System (IOCS) for Parcel Select Pieces That Are Undeliverable As Addressed (UAA).

The purpose of Proposal Ten is to change the way that the costs of UAA Parcel Select pieces are attributed, which would improve the accuracy of Parcel Select attributed costs. *Id.* at 6. The Postal Service proposes that IOCS designate costs for UAA Parcel Select to Parcel Select. *Id.*

The Postal Service explains that it charged Parcel Post prices for UAA Parcel Select pieces for most of FY 2011 and that the IOCS tallies relating to these pieces are currently designated as Parcel Post. *Id.* Beginning on June 24, 2011, the Postal Service began charging UAA Parcel Select pieces the Parcel Select non-presort price plus an additional \$3.00 fee. *Id.* The revenue for these pieces is ascribed to Parcel Select. *Id.*

Thus, the Postal Service concludes that UAA Parcel Select pieces should also be assigned to Parcel Select in IOCS. *Id.* It illustrates the impact that Proposal Ten would have on FY 2010 IOCS dollar-weighted tallies in a table titled “Changes in IOCS dollar-weight tallies due to change in treatment of UAA parcel select” of its Petition. *Id.*

Proposal Eleven. Proposed Change for Delivery Cost Savings for Negotiated Service Agreement (NSA) Express Mail.

The purpose of Proposal Eleven is to change the method for calculating the delivery cost savings of Express Mail from NSAs. *Id.* at 7.

The Postal Service explains that it has begun to implement changes regarding signatures for Express Mail and that new data on delivered Express Mail are now available from the Carrier Cost Systems (CCS). *Id.* It states that these earlier developments led to Proposal Eight: New Treatment of Express Mail as Accountable Mail on City Carrier Letter Routes, which the Commission recently approved in Order No. 920.² The Postal Service contends that the approval of Proposal Eight requires corresponding updates to the method for calculating delivery cost savings for Express Mail from NSAs. Petition at 7. It asserts that Proposal Eleven would also provide an opportunity to replace a proxy with actual data from a data system. *Id.*

The Postal Service proposes three major revisions to the Excel workbook “Express Mail Delivery Savings Update FY 2010.xls,” which it filed as a library reference

² Docket No. RM2011-12, Order Concerning Analytical Principles for Periodic Reporting (Proposals Four through Eight), October 21, 2011 (Order No. 920).

in the FY 2010 Annual Compliance Report (ACR).³ Proposal Eleven would make the costing method consistent with Proposal Eight, replace a former proxy with data specific to Express Mail now available from the CCS data system, and remove the assumption that carriers seek to obtain signatures on 10 percent of pieces that have signature waivers. Petition at 7-8.

The Postal Service also revised the Excel workbook “SupportExpress_FY10.xls” to incorporate the cost savings now calculated for deviation parcels in addition to the former flats and small parcels. *Id.* at 8. The Postal Service filed both of the revised workbooks under seal. *Id.* The Postal Service illustrates the impact of Proposal Eleven in the Excel workbook “Proposal11Impact.xls,” filed under seal. *Id.*

Proposal Twelve. Proposed Modification of the Standard Mail Presort Letters Mail Processing Cost Model.

The purpose of Proposal Twelve is to modify the Standard Mail presort letters mail processing cost model consistent with the Commission’s directive in the FY 2010 Annual Compliance Determination (ACD) to disaggregate the cost estimates for nonautomation machinable mixed automated area distribution center (MAADC) and automated area distribution center (AADC) presort Standard Mail letters. *Id.* at 9.

The Postal Service explains that the two Standard Mail nonautomation machinable presort letters price categories currently listed in the price schedule are MAADC presort letters and AADC presort letters. *Id.* However, the mail processing cost model for Standard Mail presort letters has historically included only an aggregate cost estimate for these two price categories. *Id.* Because of this aggregate cost estimate, the Commission was unable to evaluate the presort discount for nonautomation AADC machinable letters in both the FY 2009 and FY 2010 ACDs.⁴ In

³ *Id.*; Docket No. ACR2010, USPS-FY10-NP27, 2010 Competitive NSA & Nonpostals Materials, December 29, 2010.

⁴ Docket No. ACR2010, Annual Compliance Determination Report Fiscal Year 2010, March 29, 2011, at 110.

the FY 2010 ACD, the Commission directed the Postal Service to “develop the necessary cost data to permit a meaningful analysis of this discount.” *Id.*

The Postal Service states that the Standard Mail presort letters mail processing cost model contains one mail flow spreadsheet and one cost spreadsheet that are supposed to represent the aggregate mail flow and costs for the two nonautomation machinable presort letters price categories combined. Petition at 9-10. It explains that the mail flow spreadsheet lists the outgoing input sub system (ISS) operation as the first operation through which both MAADC presort and AADC presort letters are processed. *Id.* at 10. It asserts that while this is true for MAADC letters, the first operation for AADC presort letters should be the incoming ISS operation. *Id.*

The Postal Service’s proposed revisions to the Standard Mail presort letters mail processing cost model are contained in the Excel workbook “Proposal12.xls.” *Id.* at 11. Specific changes to the cost model include updating tab names and titles for spreadsheets currently in the model, adding mail flow and cost spreadsheets for nonautomation machinable AADC presort letters, and removing the Management Operating Data System (MODS) spreadsheet from the model. *Id.* at 10-11.

The Postal Service illustrates the impact of Proposal Twelve in Table 1 of the Petition. *Id.* at 12. The table compares the instant modification to the FY 2010 Standard Mail presort letter model and the FY 2010 Standard Mail presort letter model that incorporates the Proposal Nine modifications made by the Commission in Order No. 741.⁵

Proposal Thirteen. Proposed Development of a New Mail Processing Cost Model for Media Mail/Library Mail.

The purpose of Proposal Thirteen is to develop a new mail processing cost model for Media Mail and Library Mail. Petition at 13. The Postal Service explains that

⁵ Docket No. RM2011-5, Order Concerning Analytical Principles for Periodic Reporting (Proposal Nine), June 3, 2011 (Order No. 741).

in Docket Nos. RM2010-12, RM2011-5, and RM2011-6, it presented new or revised mail processing cost models for Standard Mail Parcel/Non-Flat Machinables (Proposal Seven), Media Mail – Library Mail (Proposal Twelve), and Parcel Select/Parcel Return Service (Proposal Thirteen), respectively. *Id.* at 13-14. The Commission conditionally approved each proposal and required the Postal Service to perform the analysis using the Commission’s cost pool classification methodology from Docket No. R2006-1. *Id.*

The Postal Service states that it has developed a new mail processing cost model for Media Mail – Library Mail that relies on the format and input data from Proposals Seven and Thirteen and incorporates methodological changes approved in Proposal Twelve. *Id.* at 14. These methodological changes include the use of the Commission’s cost pool classification methodology in Docket No. R2006-1. *Id.* Details about the new mail processing cost model for Media Mail – Library Mail are described in the Petition and contained in Excel workbook “Proposal13.xls.” *Id.* at 14-18.

The Postal Services illustrates the impact of Proposal Thirteen on the cost estimates in a table entitled “Mail Processing Unit Cost Impact” of the Petition. *Id.* at 18.

Proposal Fourteen. Proposed Changes in Special Services Cost Models.

The purpose of Proposal Fourteen is to resolve a number of inconsistent cost treatments of window-related activities among the Special Services cost models, which were filed as library references in the FY 2010 ACR. *Id.* at 19.

The Postal Service explains that the cost models document the unit cost estimates for certain domestic Special Services and supplement the cost information provided in library reference USPS-FY10-1.⁶ Some of the costing elements commonly incorporated into the cost models now were not available or not common practice when the models were first created several decades ago. Petition at 19. These costing elements include the Waiting Time Adjustment Factor, the Miscellaneous Factor for

⁶ *Id.*; Docket No. ACR2010, USPS-FY10-1, FY 2010 Public Cost and Revenue Analysis (PCRA) Report, December 29, 2010.

window-related activities, and the Miscellaneous Factor for mail processing-related activities. *Id.*

To be more consistent with the current Cost and Revenue Analysis (CRA) methodology, Proposal Fourteen seeks to update several Special Services cost models by adding the appropriate Waiting Time Adjustment Factor and Miscellaneous Factors. *Id.* These cost models include Caller Service, Certificate of Mailing, Correction of Mailing List, Signature Confirmation, Periodicals Applications, P.O. Box Key and Lock, Restricted Delivery, and Zip Coding of Mailing List. *Id.* at 19-20. The Postal Service submitted updated cost models in files “Proposal14NonPublic.xls,” filed under seal, and “Proposal14Public.zip.” *Id.* at 20.

The Postal Service illustrates the impact that Proposal Fourteen would have had on the unit costs reported in the FY 2010 ACR in a table on page 20 of the Petition. It includes an unredacted version of the table in Excel workbook “Proposal14Impact.xls,” filed under seal. *Id.*

Proposal Fifteen. Proposed Changes in Cost Models Related to Return Receipt Service.

The purpose of Proposal Fifteen is to correct and improve the cost models related to Return Receipt service, which are filed as a library reference in the FY 2010 ACR.⁷ The Postal Service states that several Return Receipt options are available to customers: the traditional Return Receipt (PS Form 3811), electronic Return Receipt (eRR), Return Receipt for Merchandise, and Return Receipt after Mailing. Petition at 21. It explains that the original cost study and models for Return Receipt service were developed in 1976 and updated in Docket Nos. MC96-3, R2000-1, and R2001-1. *Id.*

The Postal Service notes that the studies are being updated again because some of the steps in the model are no longer performed, and some inadvertent errors

⁷ *Id.* at 21; Docket No. ACR2010, USPS-FY10-28, FY 2010 Special Cost Studies Workpapers – Special Services (Public Portion), December 29, 2010.

appear in the current models. *Id.* It asserts that Proposal Fifteen will better align the Return Receipt service cost models with current operations and correct errors in those models. *Id.*

Specifically, to be consistent with current CRA methodology, the Postal Service proposes to add Waiting Time and Miscellaneous (window overhead) factors to the window activities cost estimation for Return Receipt (PS Form 3811), eRR, and Return Receipt after Mailing.⁸ It seeks to add an overhead factor to the delivery activities for Return Receipt (PS Form 3811) and remove printing costs from the eRR model that were erroneously included in the original model. *Id.* at 23.

Proposal Fifteen would also incorporate the Return Receipt (PS Form 3811) material costs into the model for Return Receipt for Merchandise. *Id.* The Postal Service explains that these costs were excluded from the original model. *Id.* It asserts that the overall costs of Return Receipt for Merchandise decrease in the revised model because the time to collect the signature is lower than that in the original model. *Id.* The Postal Service illustrates the impact that Proposal Fifteen would have had on the unit costs reported in the FY2010 ACR in a table on page 24 of the Petition.

The Petition and spreadsheets illustrating Proposals Nine through Fifteen are available for review on the Commission's website, <http://www.prc.gov>. The Postal Service filed certain materials under seal.⁹

Pursuant to 39 U.S.C. 505, Lawrence Fenster is designated as the Public Representative to represent the interests of the general public in this proceeding. Comments are due no later than December 5, 2011.

⁸ *Id.* at 23-24. Appendix A describes the details of a cost study conducted to identify and measure the costs associated with Return Receipt service.

⁹ Notice of the United States Postal Service of Filing of USPS-RM2012-1/NP1, November 1, 2011; USPS-RM2012-1/NP1, Nonpublic Materials Supporting Proposals Nine Through Fifteen (Non-Public), November 1, 2011.

It is ordered:

1. The Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Nine - Fifteen), filed November 1, 2011, is granted.
2. The Commission establishes Docket No. RM2012-1 to consider the matters raised by the Postal Service's Petition.
3. Interested persons may submit comments on Proposals Nine through Fifteen no later than December 5, 2011.
4. The Commission will determine the need for reply comments after review of the initial comments.
5. Lawrence Fenster is appointed to serve as the Public Representative to represent the interests of the general public in this proceeding.
6. The Secretary shall arrange for publication of this Notice in the *Federal Register*.

By the Commission.

Shoshana M. Grove
Secretary